

Message Text

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ACTION ARA-10

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SUBJECT: CHIEF OF CORDIPLAN DISCUSSES WORLD DISEQUILIBRIUM
IN FOREIGN EXCHANGE ACCUMULATION

1. IN COURSE OF LECTURE AT FLETCHER SCHOOL IN BOSTON ON DECEMBER 6, MINISTER OF STATE FOR PLANNING AND ECONOMIC COORDINATION (CORDIPLAN) GUMERSINDO RODRIGUEZ CRITICIZED THE MAL-DISTRIBUTION OF WORLD RICHES BETWEEN THE INDUSTRIALIZED AND LESS DEVELOPED COUNTRIES. HE NOTED THAT WHILE THERE IS MUCH CONCERN ABOUT CURRENT FLOW OF RESERVES TO OIL PRODUCERS, THERE HAS EXISTED THE DISEQUILIBRIUM OF RICH COUNTRIES HOLDING MOST OF WORLD RESERVES TO THE DETRIMENT OF POOR NATIONS. WHILE U.S. HAS OPERATED AS WORLD BANKER, ITS INTERNATIONAL RESERVES REPRESENT A SMALL FRACTION OF ITS OUTSTANDING DOLLAR LIABILITIES.

2. RODRIGUEZ ARGUED THAT VENEZUELA HAS BEEN VICTIM OF UNFAVORABLE TERMS OF TRADE, EXCHANGING ITS NON-RENEWABLE NATURAL RESOURCES OF PETROLEUM AND IRON FOR FINANCIAL INSTRUMENTS (BIENES FINANCIEROS) WHOSE VALUE IS BASED ONLY ON THE CONFIDENCE OF THE ENTITY ISSUING THE DEBT INSTRUMENTS. THIS SOMEWHAT SIMPLISTIC ARGUMENT

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DENIES THE FACT THAT FOREIGN EXCHANGE EARNED BY A COUNTRY CAN

BE CONVERTED INTO REAL GOODS AND NEED NOT TAKE THE FORM OF AN INCREASE IN INTERNATIONAL RESERVES. THE GOODS WHICH VENEZUELA CAN COMMAND WITH ITS FOREIGN EXCHANGE EARNINGS ARE JUST AS REAL AS THE PETROLEUM WHICH IT EXPORTS.

3. RODRIGUEZ SUPPORTED HIS CONTENTION THAT VENEZUELA IN THE PAST HAS BEEN SHORTCHANGED ON ITS PETROLEUM EARNINGS, BY NOTING THAT IN PAST FIVE YEARS VENEZUELA HAS EXPLOITED OVER SEVEN BILLION BARRELS OF ITS PETROLEUM FOR WHICH IT OBTAINED LESS THAN \$10 BILLION COMPARED TO THE \$70 BILLION WHICH IT SHOULD HAVE RECEIVED AT CURRENT PRICES. HE CLAIMED THAT VENEZUELA DURING THE SAME PERIOD EXPORTED 97 MILLION TONS OF IRON ORE FOR WHICH THE STATE RECEIVED ONLY \$200 MILLION OR A FIFTH OF ITS CURRENT MARKET VALUE. IN MAKING THIS ARGUMENT RODRIGUEZ IMPLICITLY ASSUMES THAT THE CURRENT PRICE FOR OIL IS THE JUST ONE AND THAT THE LOWER PRICE OBTAINED IN THE PAST MUST HAVE BEEN UNFAIRLY LOW, HAVING BEEN ESTABLISHED PRIMARILY BY PETROLEUM COMPANIES.

4. WHILE ACKNOWLEDGING THAT VENEZUELAN FOREIGN EXCHANGE RESERVES HAVE INCREASED FOUR AND A HALF TIMES SINCE 1971, RODRIGUEZ LAMENTED FACT INTEREST EARNED BY PLACING RESERVES IN PUBLIC AND PRIVATE DEBT INSTRUMENTS IN U.S. DID NOT COMPENSATE FOR LOSS IN VALUE OF U.S. DOLLAR. RODRIGUEZ NEGLECTED TO SAY THAT DECISION TO HOLD DOLLARS WAS VENEZUELAN CHOICE AND THAT IF RESERVES HAD BEEN HELD IN OTHER FORMS THE DETERIORATION IN PURCHASING POWER MAY HAVE BEEN GREATER.

5. RODRIGUEZ ADDED THAT AVERAGE RETURN ON RESERVES HELD IN U.S. OVER LAST SEVERAL YEARS WAS SEVEN PERCENT WHILE AVERAGE RETURN ON FOREIGN INVESTMENT IN VENEZUELA WAS FIFTEEN PERCENT. IMPLICATION OF THIS COMPARISON IS THAT VENEZUELA COULD OBTAIN HIGHER RETURN ON ITS RESERVES IF USED TO BUY OUT FOREIGN INVESTMENT. AGAIN, ARGUMENT COMPLETELY DISCOUNTS ASPECT OF TECHNOLOGICAL TRANSFER AND ASSUMES THAT CAPITAL FACTOR THE ONLY ONE IN PROFITABLE FOREIGN INVESTMENT.

6. RODRIGUEZ RATIONALIZED VENEZUELAN NATIONALIZATION OF EXTRACTIVE INDUSTRIES BY SAYING IT WAS NECESSARY TO INSURE A BETTER RETURN TO COUNTRY, NOT ONLY THROUGH EXPORT OF RAW MATERIALS BUT ALSO THROUGH PROCESSING OF CRUDE OIL INTO VARIOUS HYDROCARBON DERIVATIVES AND PETROCHEMICALS, AS WELL AS IRON INTO FINISHED STEEL. IN THIS CONNECTION HE STATED NEED FOR NEW JURIDICAL-SOCIAL INSTITUTIONS LIMITED OFFICIAL USE

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DESIGNED TO PROVIDE A BETTER DISTRIBUTION OF RETURNS TO LESS DEVELOPED COUNTRIES FOR ALL THEIR RAW MATERIALS.

7. GENERAL THRUST OF RODRIGUEZ' SPEECH SEEMED TO BE A SIMPLISTIC JUSTIFICATION OF HIGH OIL PRICES, NATIONALIZATION OF VENEZUELA'S EXTRACTIVE INDUSTRIES, AND ACCUMULATION OF HIGH LEVEL OF FOREIGN EXCHANGE RESERVES BY PETROLEUM PRODUCERS.

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